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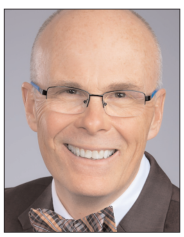
RISK-TO-REWARD SAME AS IN DECEMBER; NO NEWS COULD BE GOOD NEWS

Confident in near-term rally in the United States



Keith Richards

In this article I'd like to review the longer-term (macro) outlook of the U.S. capital markets. I'll repost a chart of the S&P 500 that will point out a few potential technical targets for that index. Lots to cover here, so I suggest we get started…

The big picture: The Bear-o-meter is a risk-to-reward measurement against the U.S. markets. It is not a pure market timing tool – rather, it gives us an idea of the current environment stacks up against historical risk and reward tendencies. I rank various indicators that fall into five broad market macro Technical analysis parameters.

They are:

- Trend;
- Sentiment;
- Breadth/Breadth-momentum;
- Value, and;
- Seasonality.

The Bear-o-meter is ranked from zero to eight, ranging from the least attractive risk-to-reward to the most. There are high-risk, neutral, or lower-risk zones on the meter—all depending on the recent numeral reading of the compilation. (A ranking from zero to two is bearish, three to five is neutral, and six to eight is bullish).

Currently, the Bear-o-meter reads as "3". This is a low-neutral reading. It implies some level of risk that may be higher than a normal reading, but it is not implying Armageddon.

Changes from my Dec. 10, 2018 reading (posted on my blog at www.valuetrend.ca) include a positive change on the percentage of stocks above their 50 day SMAs (simple moving average) on the S&P 500 (it is reading an oversold level, which is a positive sign).

Offsetting that was the New High/New Low reading of the NYSE composite, which went from a positive reading to a neutral score (oversold to neutral).

Bottom line: the Bear-o-meter continues to read at the same "3" level as it did in December. Not much of a predictive edge here. There has been no radical change in status for the risk-to-reward outlook of the markets, but perhaps no news is good news…

The mid-term picture: Here's a chart (see following page) I've posted before outlining the potential support resistance zones for the S&P 500.

I noted on my BNN Bloomberg appearance in December that the S&P 500 should rally back to the mid-2,500s. Right on schedule, the day after I noted this potential on BNN, the market began to rally from its low point. My determination of the rally was based on my near-term timing model, which I cover on my blog regularly. It had been nearing a signal point on the day of my BNN appearance – hence my expressing confidence in a near-termed rally on the show.

The move still has strength. The market wants to rally back—and I feel it will get into the mid-2,500s (vital support zone from 2,540 to 2,580 per the chart) before you can shake a stick. In fact, it may have reached that point by the time you read this article.

The potential is there for the S&P 500 to return to its former trading zone seen through virtually all of 2018 (roughly between 2,600 and 2,900). But my bet is that it won't make it back to that high zone immediately.

One factor that causes me concern is the low volume on the current rally. Yes, it was the holiday season – and that is a period of low volume. But there's more to it than that. With pro traders and smart money away over the holidays, swing traders, programmed trading – and possibly some short covering – may have pushed the indexes from an already massively oversold situation. I have no hard evidence to back that thought, but it is plausible.

Conclusion: The macro picture remains neutral to somewhat above-average in risk-to-reward status (that is, per the Bear-o-meter). The mid-termed picture looks like the S&P 500 may continue its oversold rally back into the 2,540-to-2580 zone, where it will meet very significant selling pressure. It may be there already by the time you read this article.

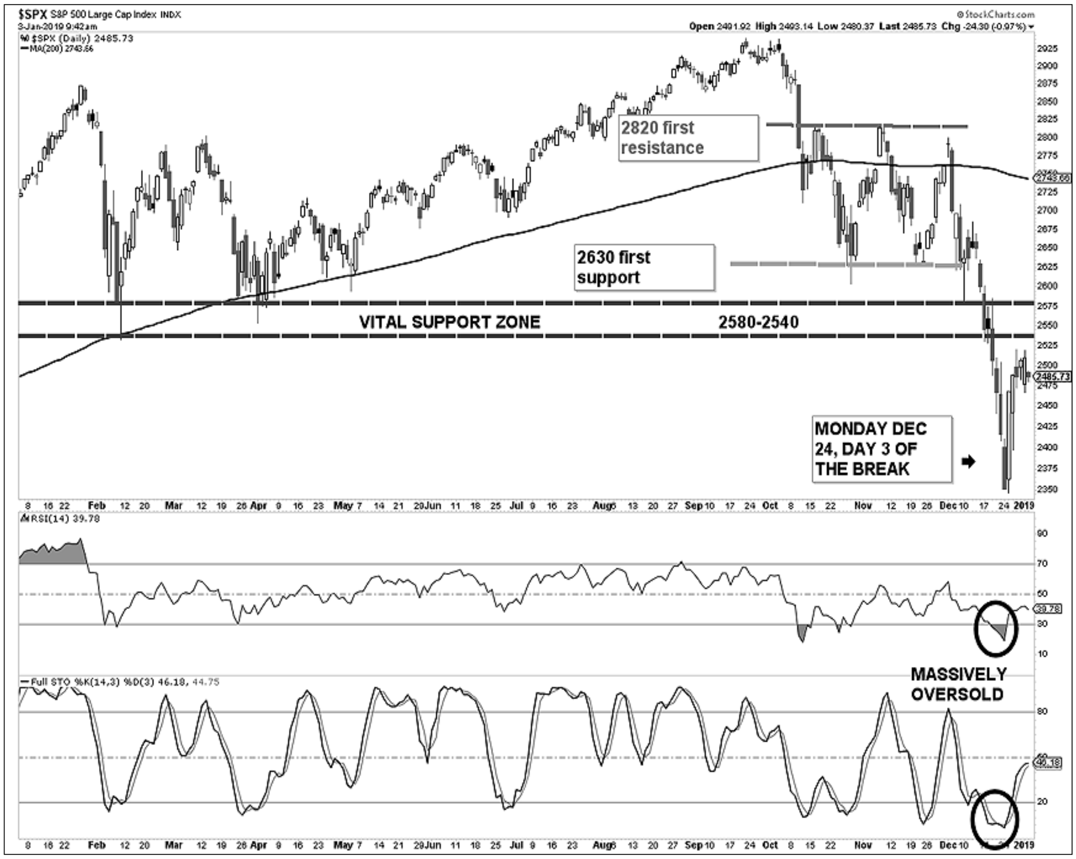
Assuming the S&P can hit that target, it will be prudent to analyze market conditions at that time – and I would again recommend that you visit my blog for timely market analysis. Don't prognosticate or predict. Simply go with the flow. That's the way it's going to be for the time being.

By the way, ValueTrend posted our 2018 numbers recently for our Equity Platform. We've had substantially less market downside than markets had in 2018. This again illustrates that you can indeed limit your risk, and keep your money through the use of technical analysis.

Many people make New Year's resolutions each year. For 2019, you might make a resolution to incorporate some technical analysis into the way you look at stocks.

If I may be so bold, I'd like to suggest you read my book Sideways to learn how to incorporate the basic tools of technical analysis. I wrote the book for ordinary investors as a pragmatic guide on how to do just that.

A major benefit of technical analysis is to minimize losses in your portfolio. Keeping your losses lower means that you have less of a hole to "dig out of" when markets fall. Remember, a 10 per cent drop requires a 12 per cent gain to break even. A three per cent drop only re-



quires a 3.1 per cent gain to break even. The math is exponential – the bigger the loss, the proportional gain required increases geometrically.

Those who bought and held last year with little activity will likely be looking at near 10 per cent losses to recover from, meaning they will be looking for higher gains than that to recover.

Keith on BNN Bloomberg

Keith appears regularly on BNN Bloomberg's Market Call to answer viewer questions on the technical analysis of stock trends, and to provide unique insights on the factors of technical analysis used in successful investment management.

His next appearance is scheduled for 6 p.m. on Thursday, Jan. 24. (Note: Times and dates may be subject to change.)

If you have questions about the technical analysis of stock trends for individual stocks, be sure to phone in with your questions for Keith during the show. Call toll-free at 1-855-326-6266 or email your questions ahead of time (specify they are for Keith) to marketcall@bnnbloomberg.ca.

Keith Richards is Chief Portfolio Manager & President of Value-Trend Wealth Management. He can be contacted at info@value-trend.ca. He may hold positions in the securities mentioned. The information provided is general in nature and does not represent investment advice. It is subject to change without notice and is based on the perspectives and opinions of the writer only. It may also contain projections or other "forward-looking statements". There is significant risk that forward looking statements will not prove to be accurate and actual results, performance, or achievements could differ materially from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements and you will not unduly rely on such forward-looking statements. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please consult an appropriate professional regarding your particular circumstances.